APPLIED
Industrial Technologies®

*We Keep Industry Running*

# Investor Presentation

# Safe Harbor Statement

This presentation contains statements that are forward-looking, as that term is defined by the Securities and Exchange Commission in its rules, regulations and releases. Applied intends that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are often identified by qualifiers such as “expect,” “outlook,” “guidance,” “will” and derivative or similar expressions. All forward-looking statements are based on current expectations regarding important risk factors including trends in the industrial sector of the economy, the effects of the health crisis associated with the COVID-19 pandemic on our business operations, results of operations, and financial condition, and other risk factors identified in Applied's most recent periodic report and other filings made with the Securities and Exchange Commission, many of which risks are amplified by circumstances arising out of the COVID-19 pandemic. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by Applied or any other person that the results expressed therein will be achieved. Applied assumes no obligation to update publicly or revise any forward-looking statements, whether due to new information, or events, or otherwise.

**Non-GAAP Financial Measures**

This presentation sets forth certain non-GAAP financial measures - Adjusted Gross Margin; EBITDA; Adjusted EBITDA; Adjusted EBITDA Margin; Free Cash Flow; Net Leverage Ratio - which are presented as supplemental disclosures to Net Income; Cash from Operations; Total Debt Outstanding; and reported results. Management believes these measures are useful indicators for normalizing earnings for non-routine items and facilitating effective evaluation of operating performance. A presentation of the most directly comparable GAAP measure and reconciliations of Adjusted Gross Margin, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Free Cash Flow, and Net Leverage Ratio are set forth in the appendix to this presentation.

# Company Profile

APPLIED Industrial Technologies®

- **Bearings & Power Transmission** *(#2 industry position)*
- **Fluid Power** *(#1 industry position)*
- **Specialty Flow Control** *(#1 industry position)*
- **Robotics & Machinery Automation** *(Emerging Provider)*

## We Are One of the Largest Distributors and Solution Providers of Industrial Motion, Power, and Control Technologies in the World

| | | |
|---|---|---|
| $3.1B Revenue | $294M EBITDA | $3.7B Market Cap |
| 7M+ Accessible Products SKUs | 3,200+ Customer Facing Associates | 570+ Service Facilities |

*Headquartered in Cleveland, Ohio*

*Notes: 1) Revenue and EBITDA based on reported fiscal 2020*
*2) Represents adjusted EBITDA*

# Multi-Channel Capabilities

Industrial Customer



## Service Centers

- Local MRO / Aftermarket Support
- Leading Motion / Power Control Expertise
- Technical Shop, Repair, Consult Services
- Over 400+ Locations Concentrated in North America



## Flow Control

- Mission-Critical Engineered Solutions for Full-Cycle Flow / Process Infrastructure
- Systems Integration, Repair, Fabrication
- 60+ locations



## E-Business

- Applied.com
- EDI & PunchOut
- Digital Inside Sales Team
- Strategic Customer Engagement



## Fluid Power

- Fluid Power System Design, Build, Integration
- Industrial, Off-Highway Mobile, Technology
- Certified Fluid Power Specialists & Engineers
- 70+ locations



## Automation

- Value-Added Automation Expertise (Design, Assembly & Integration)
- Robotics, Machine Vision, Motion Control, and IIoT Technologies
- Final Mile Customization of Automation

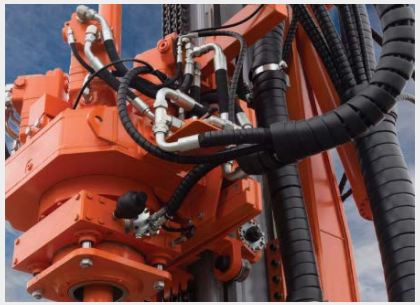


## VMI / Vending

- Class “C” Consumables Management
- Indirect Shop Supplies & Solutions
- 200+ Dedicated Sales & Service Reps

*Leading Technical End-Market Reach with Comprehensive Product & Service Solutions*

# Product Portfolio

| Power Transmission | Bearings, Linear & Seals | Fluid Power | Flow Control | General MRO; Hose Products |
|---|---|---|---|---|
|  |  |  |  |  |
| 27% | 19% | 21% | 12% | 21% |

*Note: Based on reported fiscal 2020 sales*

*~80% of Sales Focused in Critical Motion Control, Fluid Power, and Flow Control Products & Solutions*

# Customer Application / Cross-Sell Potential of Applied® Products & Solutions

## Service Centers

Mounted bearings, gearing, & couplings for processing equipment & machinery break-fix applications



## Service Centers

Fluid power MRO supplies, including cylinders, valves, & hoses to support regular maintenance on core systems



## Specialty Flow Control

Pumps, valves, instrumentation, hoses, & filtration to ensure precise control of pressure, temperature, levels, flow, & product quality across process lines



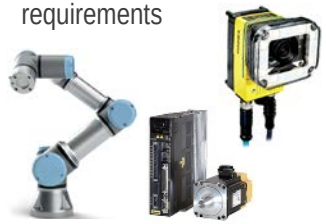
## Service Centers

Maintenance and repair on belting, pulleys, & clutches for conveying & movement of processed materials & end-product



## Automation Solutions

Collaborative robots, motion control, & machine vision for finishing, packaging, quality inspection, & other automation requirements



## Fluid Power

Design & build hydraulic power units for single machine or central plant power requirements



## Specialty Flow Control

Steam specialties, heat exchangers, valves, instruments, & pumps to control plant utilities for improved energy conservation & waste management





## Automation Solutions

Design, engineer, & build automated systems used for moving, weighing, sorting, processing & cleaning product



## Indirect Consumable Supply Solutions

VMI, vending, & storeroom technology solutions in support of MRO consumable supplies within back office, administrative & support areas



## Fluid Power

Design & build automated pneumatic systems that control / move product to various fill & weigh stations



## Smart Solutions (IIoT)

Sensors, machine vision, & industrial networking in support of remote monitoring, maintenance analysis, & operational insights

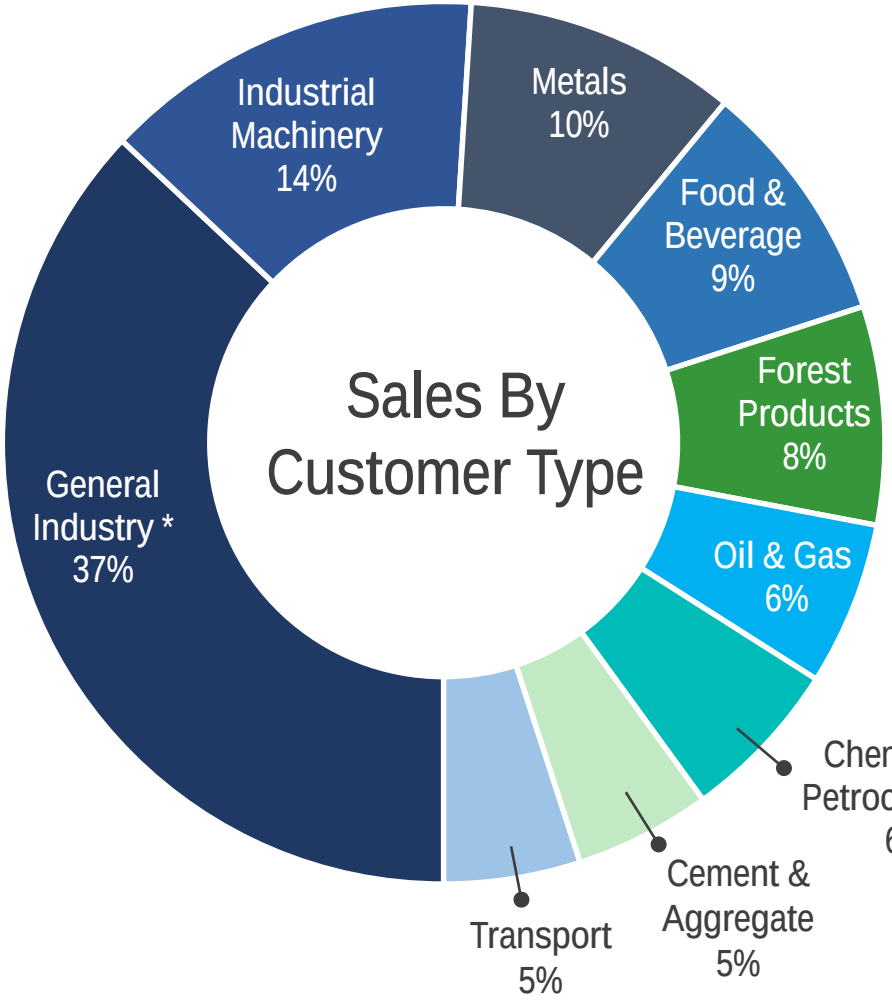


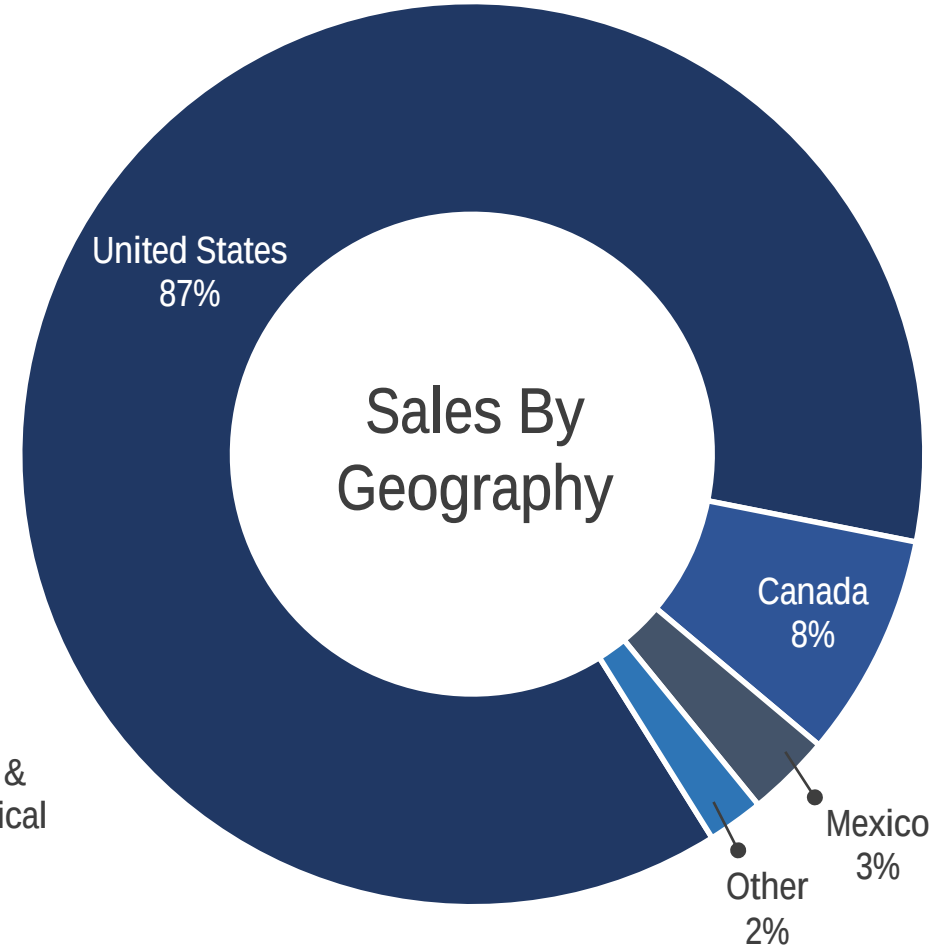
# Primary Supplier Partners



# Customer & Geographic Exposure








** General Industry includes all industries representing 4% or less of sales; includes Utilities, Rubber & Plastics, Construction, Technology, Agriculture, Automotive, and Life Sciences; Based on fiscal 2020 sales*

*Diverse Customer Base Focused Primarily Within North America*

# Applied® Value Creation Model

## CORE
- World-Class Brands
- Critical Support to Industrial Infrastructure
- Technical & Solutions Based Focus
- Embedded Industrial Customer Base
- Recurring MRO Revenue Stream
- High Cash Flow Model

## Supports Growth Into Demand-Rich, Higher Margin, & Emerging Areas of the Industrial Sector
Fluid Power • Flow Control • Automation • Smart Technologies
*(Expand and Cross-Sell Across "Core" Customer Base)*

## Operational Focus
- History of Cost Discipline
- Operational Excellence Initiatives
- Shared Services Deployment
- Ongoing Sales Process Refinement
- System Investments & Analytics
- Talent Development

## Financial Targets
Mid Single-Digit Organic Growth
Gross Margin Expansion Through a Cycle
11%+ EBITDA Margin Target (9% in FY20)
Working Capital <= 20% of Sales

**GUIDED BY CORE VALUES**
Integrity • Respect • Customer Focus • Commitment to Excellence • Accountability • Innovation • Continuous Improvement • Teamwork



**Acquisitions** *(~300 bps of growth annually)*
**Organic Capital Redeployment**

**Dividends** *(recent 1.4% yield)*
**Share Buybacks** *($120M last five years)*

**Multiple Expansion=** *enhanced margin / returns, stronger growth, scaling market cap, IR initiatives*

Double-Digit Earnings CAGR
Free Cash >100% of Net Income

*SHAREHOLDER RETURNS*

*Durable & Adaptable Business Model Positioned to Unlock Shareholder Value Long Term*

# Key Growth & Operational Considerations

*Our products & solutions will be increasingly critical across the industrial supply chain…*

- **Early-cycle Break / Fix Demand:** Elevated customer requirements following an unprecedented period of idle equipment and deferred maintenance.
- **Customer Outsourcing of Technical Needs:** Greater focus on addressing skilled labor constraints that could increase as broader economy reopens.
- **Industrial Facility Optimization:** Greater focus on plant floor optimization / automation and equipment maintenance as supply chains de-risk.
- **Compliance and Regulatory Requirements:** More stringent facility and equipment standards driving increased technical MRO needs.
- **Manufacturing Reshoring:** Potential greater customer push to diversify production concentration and shift risk management parameters.
- **Demand for Next Generation Industrial Solutions:** Evolving production strategies and re-prioritizing investments in automation and IIoT.
- **Industry Consolidation:** Acceleration of market share toward leading distribution platforms given greater operational and capital requirements.

*…while our operational platform and internal capabilities have never been stronger*

- **Expanded & Enhanced Offerings:** Fluid Power, Flow Control, Automation, Consumables
- **Cross-Sell Opportunity:** Leveraging Legacy Service Center Network, Strategic Accounts
- **Greater Technical Focus:** Expansion of Fluid Power, Flow Control, Automation, IIoT Solutions
- **Enhanced Systems & Processes:** Established ERP, Analytics, Sales Processes, HR / Talent
- **Operational Excellence:** Strong Learning Foundation, Integrated Strategy, Best Practices
- **Enhanced Digital Platform:** Applied.com, EDI, PunchOut, Inside Sales Team

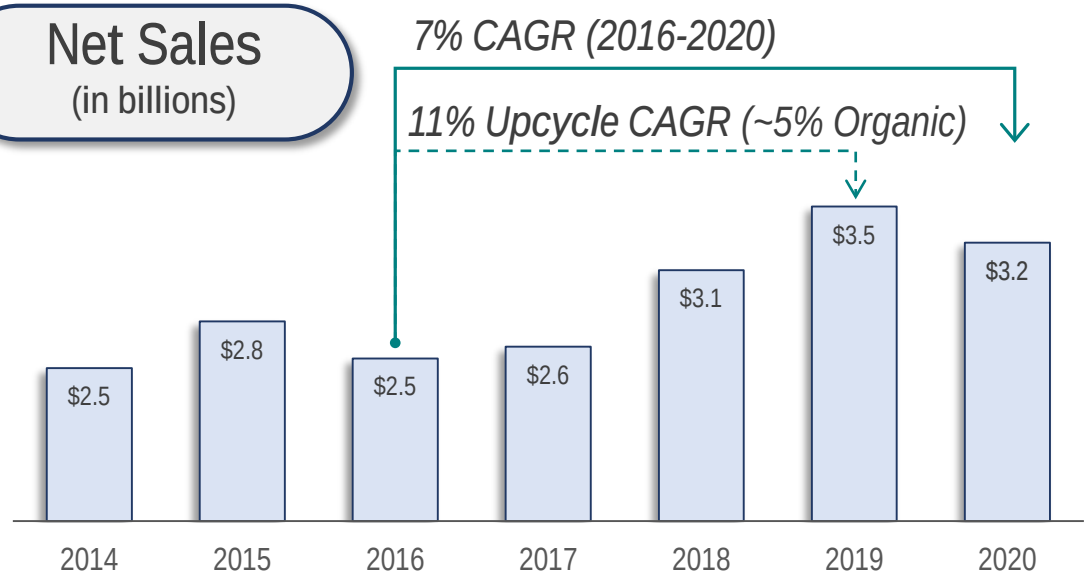
# Investor Discussion Points – Q3 FY21

| Discussion Point | Update | Detail |
|---|---|---|
| **1. Underlying Demand** | • *Improved sequentially through the quarter; seeing greater maintenance, break-fix, and equipment optimization spending, as well as emerging secular demand tailwinds* | • *F3Q21 organic daily sales +0.4% YoY vs. -10.5% in F2Q21, and +8% sequentially vs. a 3Q/2Q average of +2.5% from FY15-FY19* |
| **2. End-Market Trends** | • *Demand improvement extending across a greater number of industries relative to F1H21; recovery within heavy industries gaining momentum* | • *17 of top 30 industry verticals up YoY in F3Q21 vs. 10 in F2Q21; strongest trends across food & beverage, aggregates, technology, chemicals, lumber & wood, pulp & paper, and transportation* |
| **3. Inflation & Pricing** | • *Supplier price announcements greater in recent months; overall magnitude to date remains manageable and not unusual relative to prior cycle recoveries* | • *Price contribution slightly higher in F3Q21 but still modest (<100 bps); strong track record of managing price/cost and supplier inflation reflecting industry position, internal initiatives, and mix* |
| **4. Supply Chain** | • *Suppliers facing greater supply chain constraints with lead times extending, though impact to AIT remains modest to date; distribution network running smoothly* | • *Position across core verticals, supplier strategy, and localized scale provide supply chain support and share gain opportunities through an upcycle* |
| **5. Near-term Sales Outlook** | • *YoY sales growth accelerating into early F4Q21 as prior year pandemic weakness is lapped; broader indicators remain positive including improving heavy-industry demand and backlog* | • *Organic sales month to date in April up ~10% YoY; assuming normal seasonal patterns for the balance of the quarter, expect F4Q21 organic sales to increase 12% to 13% YoY* |
| **6. Incremental Margins** | • *Favorable F3Q21 operating leverage reflects strong gross margin execution, cost control, and benefits from a leaner cost structure, which offset the roll-off of temporary cost actions* | • *Adj. EBITDA up 14% YoY; targeting F4Q21 incremental margins in the low double-digit to mid teen range; reiterate average annual incremental margin target of mid to high teens over an upcycle* |
| **7. Capital Deployment** | • *Balance sheet and liquidity in strong position; remain balanced but opportunistic given an improving outlook and growth initiatives* | • *Primarily focused on M&A and internal growth investment near term; expect greater working capital requirements and more modest cash flow in F4Q21* |
| **8. Automation Offering** | • *Favorable internal and external feedback on our expanding position; focused on next generation solutions tied to robotics, vision, motion, and IIoT technologies* | • *Encouraging organic sales growth in F3Q21; recent ACS and Gibson acquisitions contributed $15M of sales in F3Q21; order activity increasing, pipeline remains active* |

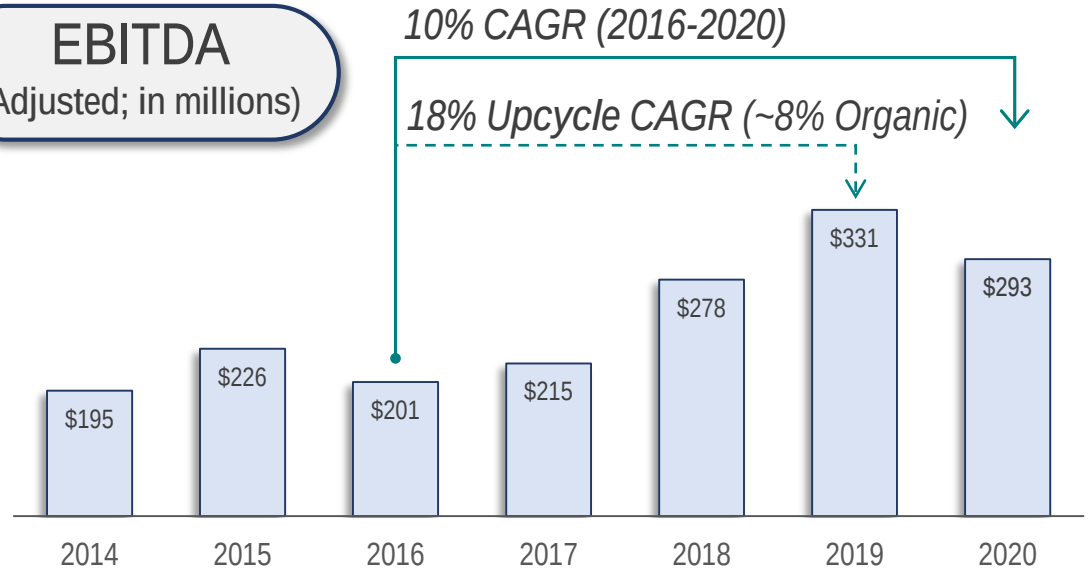
*Strong Execution Across Applied as the Industrial Demand Recovery Unfolds*

# Historical Financial Highlights

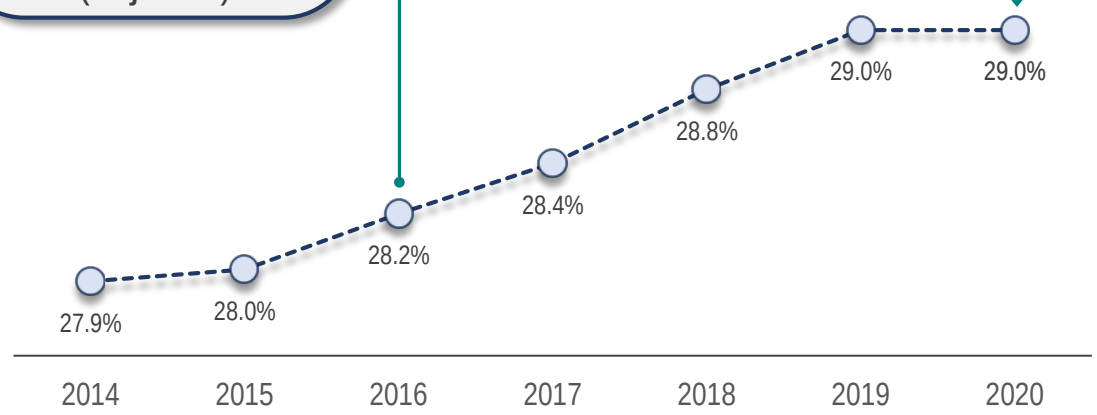
## Net Sales
(in billions)



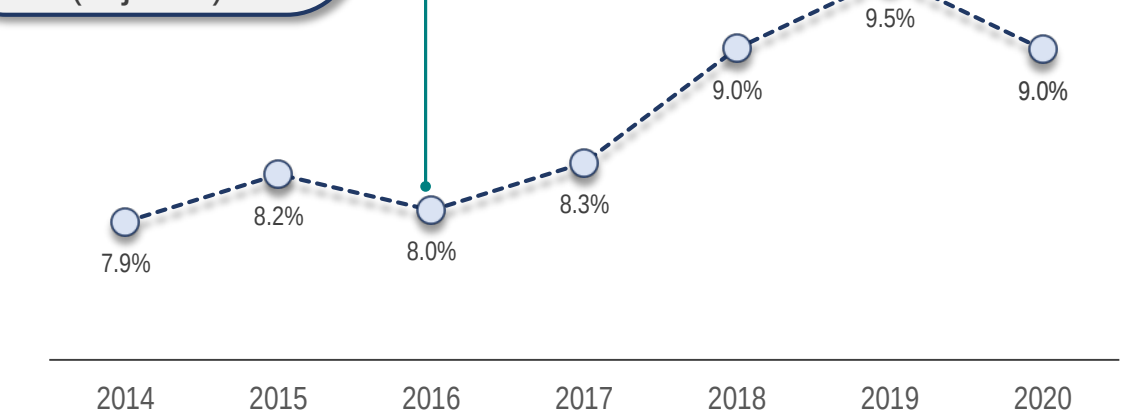

## EBITDA
(Adjusted; in millions)




## Gross Margins
(Adjusted)




## EBITDA Margins
(Adjusted)

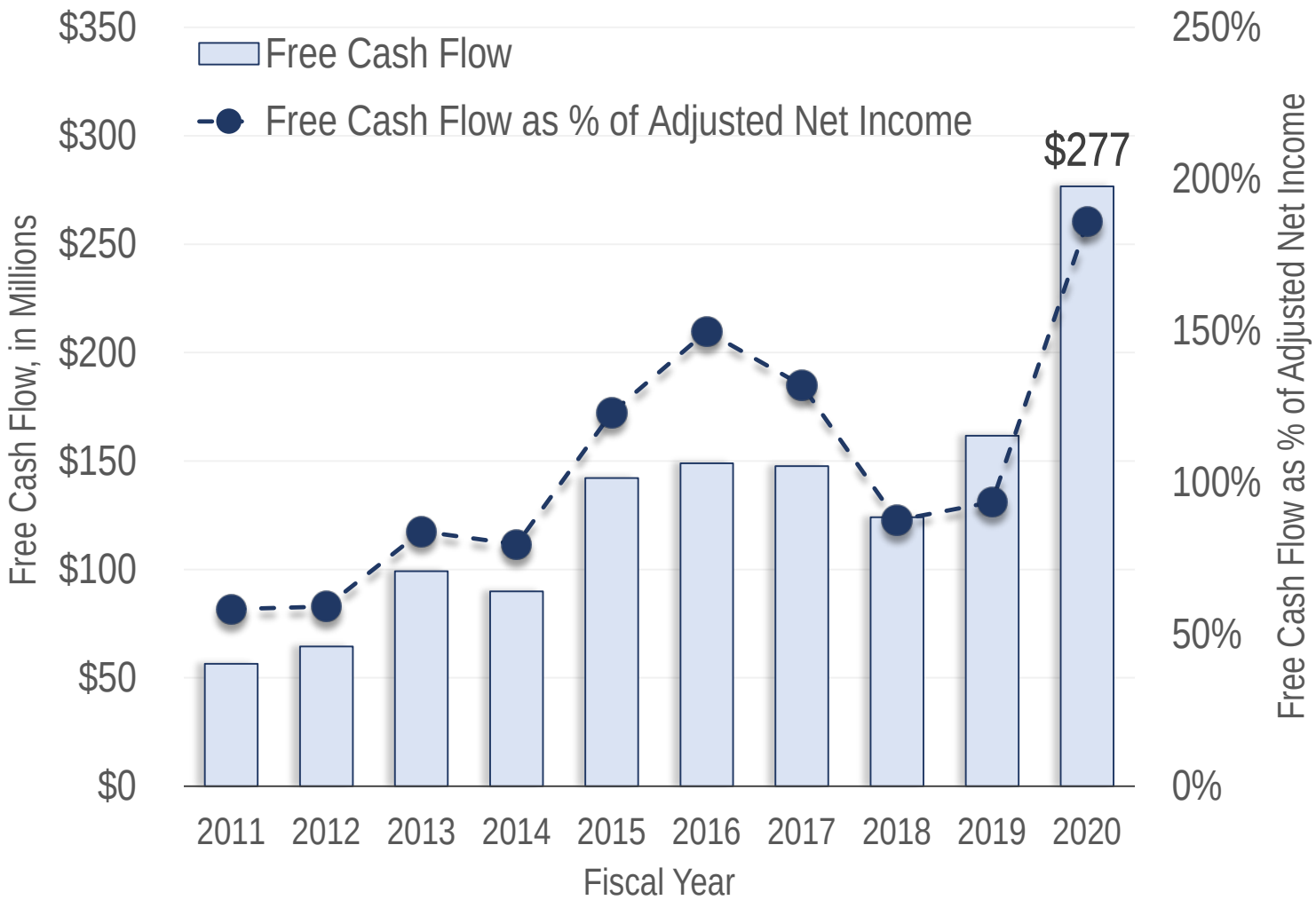



*Note: Represents fiscal years ending June 30*

*Track Record of Financial Resiliency, Accelerating Growth, & Margin Expansion*

# Historical Free Cash Generation

## *Durable & Improving Cash Generation Through All Cycles*



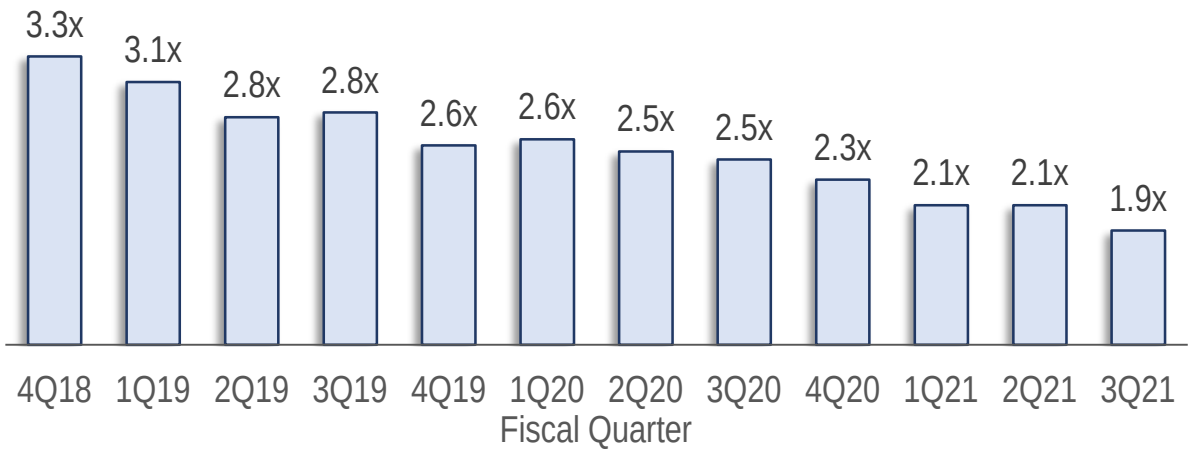

## *Strategic Initiatives Aligned to Drive Greater Cash Generation*

- Average FCF Conversion of 130% Past 5 Years
- Increased Scale & Margin Expansion Potential
  - 2018 acquisition of FCX
  - Growth in higher margin areas of business
  - Long-term sales target $4.5B
    - +40% vs. $3.2B in FY20)
- Working Capital Management
  - Target <= 20% of sales (vs. 3-Yr avg 22%)
  - Expansion of shared services model
  - Ongoing collections initiatives
  - Terms expansion, purchase card programs
  - Leveraging systems investments

*Strong Cash Flow Model Supports Growth, Liquidity & Shareholder Returns Through the Cycle*

# Balance Sheet and Liquidity

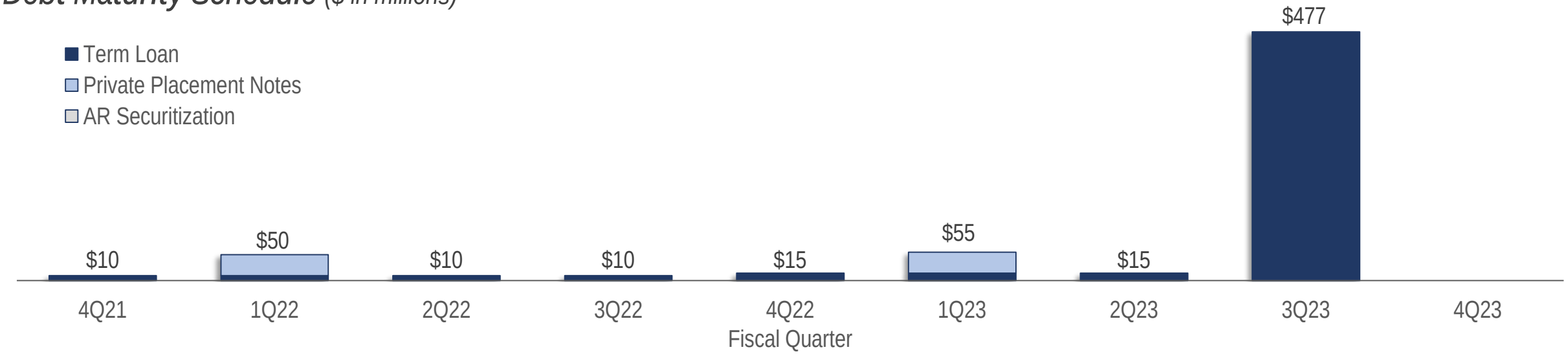
## *Net Leverage Ratio* *(Net Debt to Trailing Adjusted EBITDA)*




## *Balance Sheet & Liquidity* *(As of March 31, 2021)*

- Net leverage ratio at 1.9x
- $304M of cash on hand
- Paid down ~$90M of debt over past 12 months
- Net debt down 30% YoY
- ~$500M of available capacity under undrawn revolver, AR securitization facility, and uncommitted shelf facility

## *Debt Maturity Schedule* *($ in millions)*



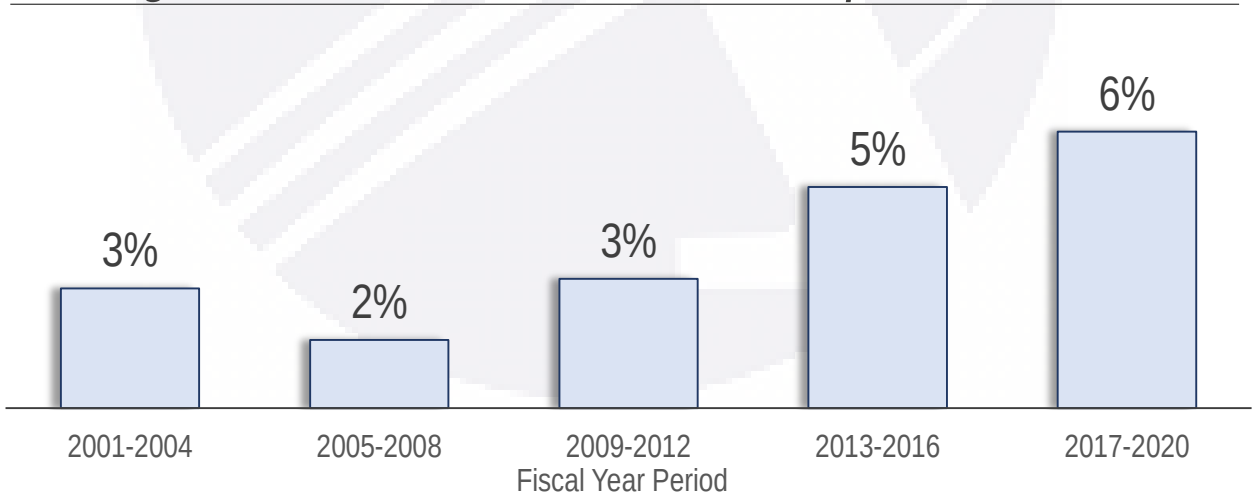

*Supportive Liquidity & Balance Sheet Position*

# Acquisitive Growth

## *Active Acquisition Pipeline Aligned with Long-term Growth Priorities…*

- Acquisitions Remain an Element of Growth Formula
  - 43 acquisitions since 2000
  - 26 acquisitions since 2012 representing over $1B in annual sales
  - Annual Target = $100M of sales from acquisitions *(~300 bps of growth)*
  - High industry fragmentation presents consolidation opportunity
  - Customers partnering with fewer, more capable providers
  - Greater operational requirements constraining smaller providers
  - Augment supplier reach / penetration within key verticals

*Average Annual Sales Growth From Acquisitions*




## Acquisition Priority Areas

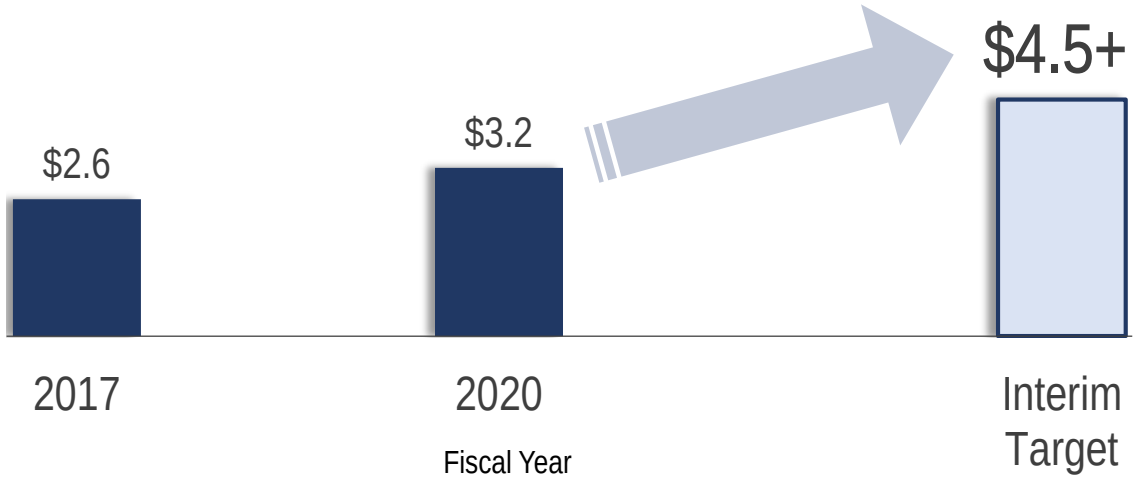
*Focused on Expanding Current Offering While Further Enhancing Our Technical Differentiation & Value-Add Solution Capabilities*

- Fluid Power
- Flow Control
- Automation

*Disciplined Acquisition Strategy Focused on Supplementing Growth & Strengthening Industry Position*

# Long-Term Strategic Objectives

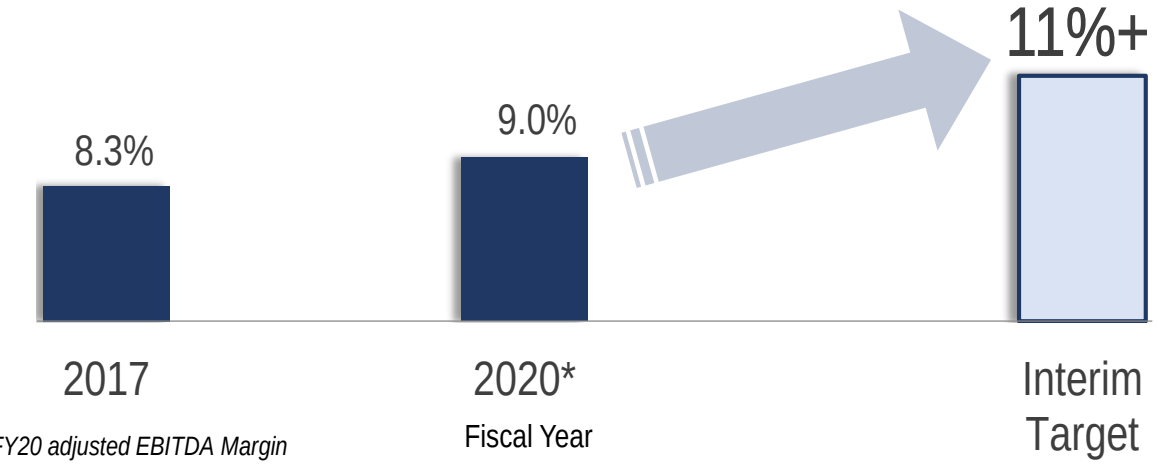
## *Net Sales – Grow to Over $4.5 Billion*




## Strategic Drivers & Considerations

- Mid Single-Digit Organic Growth During Upcycle
- Cross-Selling Across Legacy Customer Network
- Expansion of Faster Growth Verticals
- $100M From Accretive Acquisitions Per Year
- High Single-Digit CAGR Over Long-term Strategy Horizon

## *EBITDA Margins – Expand to Over 11%*




** FY20 adjusted EBITDA Margin*

## Strategic Drivers & Considerations

- Mid to High-Teen Incremental Margins During Upcycle
- Leveraging of Systems Investments
- Operational Excellence Initiatives
- Expansion of Higher Margin Products & Solutions
  - *Fluid Power, Flow Control, Automation, Consumables*

*Execution Track Record & Long-Term Strategic Objectives Provide Framework for Significant Value Creation*

# Why Invest In Applied®?

## Strong & Growing Cash Generation

- >100% Conversion
- Expanding Margins, Improving Working Capital

## Enhanced Growth Profile

- Significant Cross-Sell Opportunity
- Greater Exposure to Secular Tailwinds
- Expansion into Automation & IIoT
- Potential Industry Consolidation

## Competitive Moat

- Leading Position in Technical Product Areas
- Engineered Solutions & Service Capabilities
- Scale & Proximity of Service Center Network
- Critical to Customers' Direct Infrastructure

## Margin Expansion Potential

- Established Track Record
- Favorable Mix in Growth Priority Areas
- Operational Excellence, Systems Investments



## Operational Discipline

- Strong Track Record of Cost Control & Execution
- Experienced Tenured Management Team
- Focus on Accountability & Sustainability

## Adaptable Industry Position

- Leveraging Legacy in Core Motion Control
- Embedded Customer Base Ripe for Cross-Selling
- Expansion into Automation & IIoT

## Commitment to ESG

- Advising Customers on Energy Savings
- Promoting Diversity & Continuous Learning
- Best Practices in Corporate Governance

## Rising Investor Awareness

- Enhanced Investor Relations & Outreach Strategy
- Scalable Market Capitalization
- Self-Help Margin & Growth Story

*Leading Technical Distributor with Self-Help Margin & Growth Initiatives, Strong Cash Flow, & Competitive Moat*

# Segment Overview

## Service Center Based Distribution

**69%** of sales(1)

Legacy service center distribution network across North America, Australia, & New Zealand; Focused on MRO motion & power control solutions for critical break-fix applications; includes inventory management solutions

*Key Growth & Operational Considerations*

- Early-cycle break-fix demand; equipment / facility optimization
- Customer labor constraints; greater technical requirements
- Potential U.S. manufacturing reshoring; local account growth
- Sales process optimization; enhanced digital capabilities
- Embedded customer base ripe for cross-selling

## Fluid Power & Flow Control

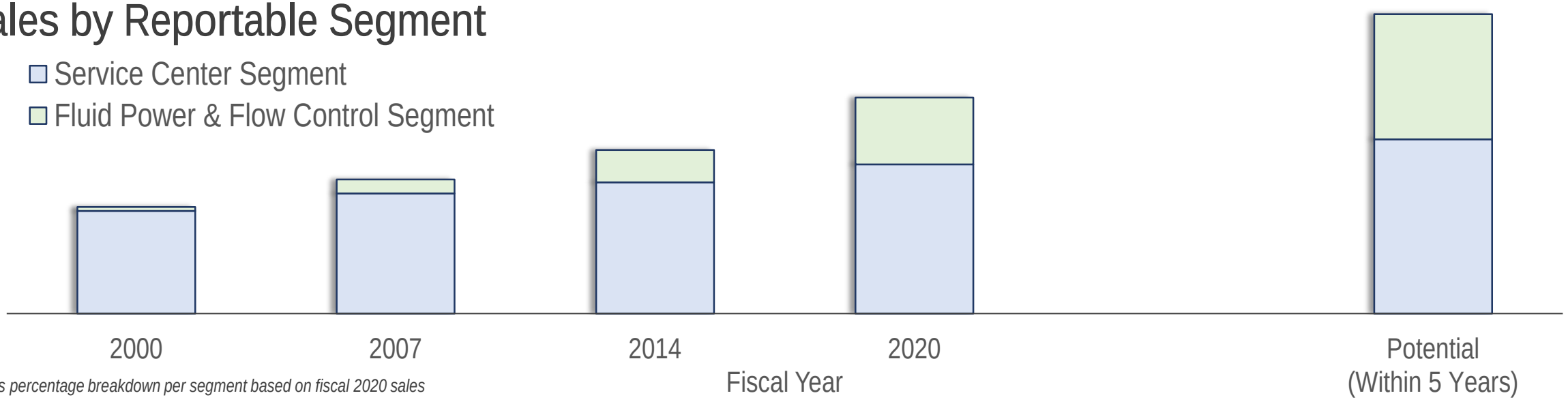
**31%** of sales(1)

Specializing in distributing, engineering, designing, integrating, and repairing hydraulic, pneumatic, and specialty flow control technologies and related systems; Includes emerging automation solutions

*Key Growth & Operational Considerations*

- Higher margin and faster growing area of Applied®
- Production efficiency, remote / control integration, compliance
- Technical capabilities; footprint expansion & cross-sell opportunity
- Emerging focus & investment into automation solutions
- Diversification into new end markets with secular tailwinds

## Sales by Reportable Segment




*(1) Sales percentage breakdown per segment based on fiscal 2020 sales*

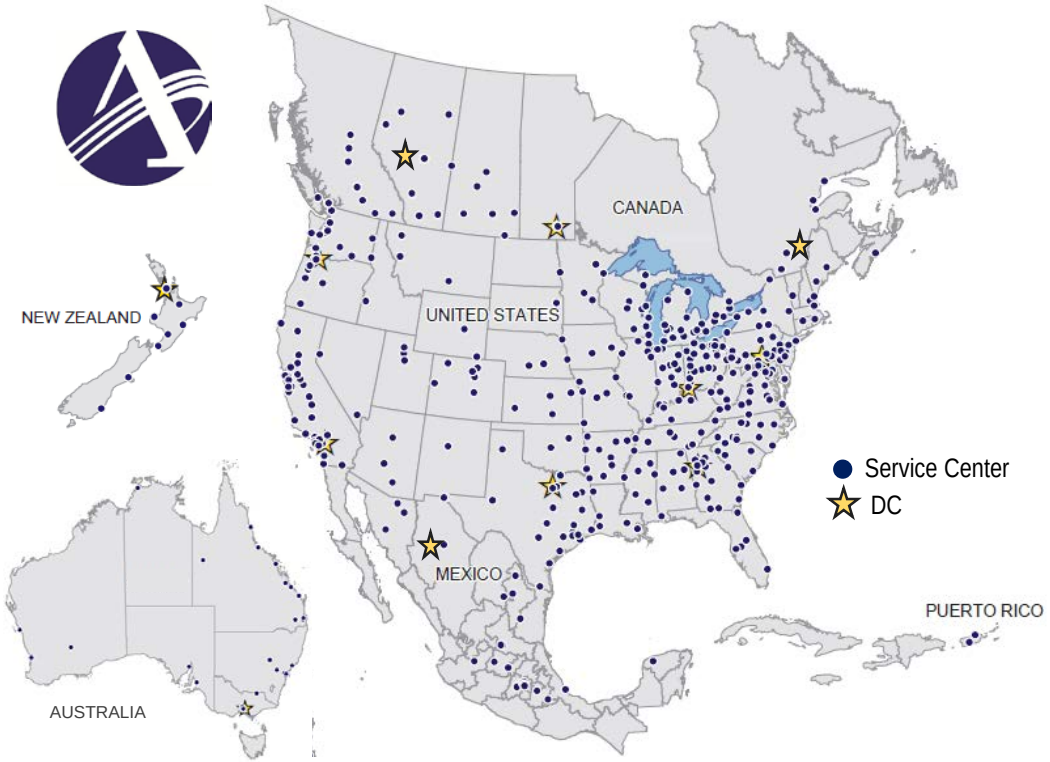
*Legacy in Core Service Center Segment …Strategic Expansion Across Fluid Power & Flow Control Segment*

# Service Center Network

- Network of service locations supporting industrial motion & power control MRO requirements
- Over 400 locations across North America, Australia, & New Zealand
- Local market focus with overnight inventory replenishment from 12 distribution centers
- 24 / 7 emergency service tailored to minimize customers' production downtime
- Over 50% of sales tied to break-fix situation at customers' facility
- Authorized distributor of more than 7 million products with a focus on premier brands




## Applied Service Center & DC Locations




## Customer Return Enhancing Solutions

- *Documented Value-Added Report:* Analysis & evaluation of cost savings
- *Maintenance PRO:* Technical training for customer employees
- *Industrial Rubber Services:* Shop network offering fabrication, installation, repair, & warehousing of industrial belting, hosing, & conveyor supplies
- *Repair & Rebuild:* Analysis & evaluation of repair options; parts reworked to specifications
- *Inventory Management:* Evaluation of customers' replenishment cycles; committed inventory of critical spares
- *Applied Store:* Comprehensive tracking system to control & manage customers' supply storeroom
- *Linear Shafting Services:* Cut, machine, stock & ship customized lengths of shafting





*One of the Largest MRO Service Networks of Industrial Motion & Power Control Needs*

# Fluid Power Platform

APPLIED Industrial Technologies®

APPLIED Fluid Power®

## The Leading Provider of an Unmatched Industrial Power & Efficiency Solution

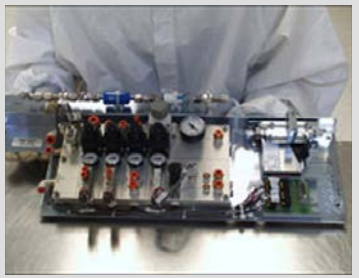
Fluid Power 101: Hydraulic & pneumatic technologies using liquids & gases under pressure to transmit power

Advantages: More power in smaller spaces than other forms of power transmission

- *Hydraulics (uses liquids):* high power-to-weight ratio, high torque at low speed, reliability
- *Pneumatics (uses gases):* inexpensive, lightweight, clean, speed, precision

Secular Tailwinds: Electronic control integration, equipment power consumption, plant automation, emissions control, remote monitoring, machining advancements, IIoT integration, data analytics, precision machine performance

### Key Applications & Market Focus

| Off-Highway Mobile | Industrial | Technology |
|---|---|---|
|  |  |  |
|  |  |  |

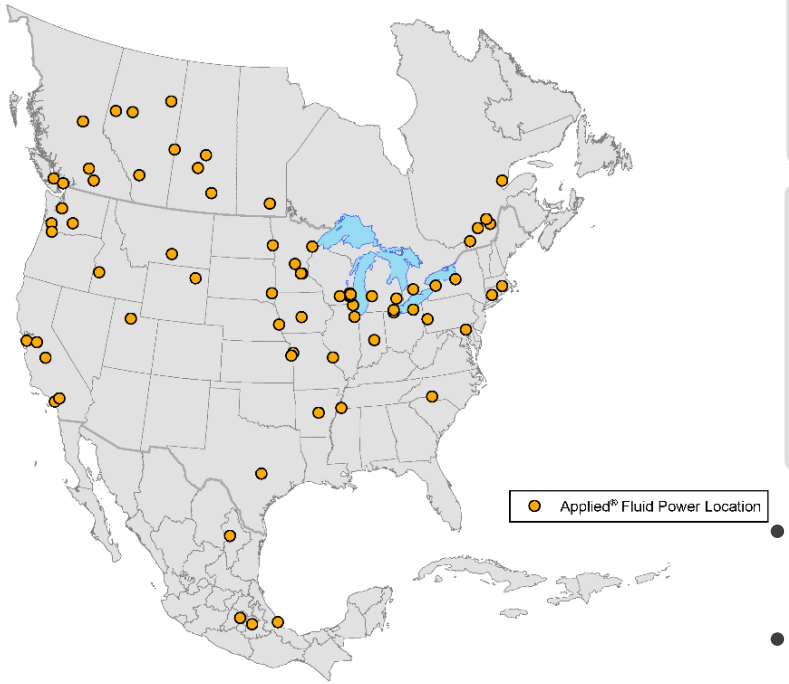
*Fluid Power Plays an Integral Role in the Industrial Sector's Growth & Efficiency*

# Fluid Power Position & Value Proposition

APPLIED Industrial Technologies®

APPLIED Fluid Power®

*Largest Fluid Power Distributor in North America*




**We Provide Innovative Fluid Power Solutions Through Unmatched Engineered Systems Design, Assembly, Integration, & Service Capabilities**

## Engineering & Design





- Customized fluid power systems for specific applications
- Certified engineers & designers
- CAD software & 3D modeling
- Customer consultation, analysis

## System Build & Integration





- Hydraulic Power Units
- Cartridge Valve Manifolds
- Lubrication & Filtration Systems
- Electronic Control Integration
- Sensor & Robotics Implementation

## Service & Repair





- Repair facilities for pumps, motors, valves & cylinders
- Fluid power specialists with service center support
- Team of technicians
- Inspection and testing services

# Flow Control: Overview & Industry Application

APPLIED Industrial Technologies

APPLIED

***Flow Control***

Flow Control 101: Products used to manage & control the flow of liquids & gases within an industrial facility or process industry

Product Detail: Includes flow handling (pumps, compressors), flow management (valves, actuators) & specialty equipment (instrumentation, filtration); typically engineered or customized for specific industry application; requires technical aftermarket support

Secular Tailwinds: Process industry infrastructure expansion, more stringent regulatory & compliance standards, customer technical labor constraints, automation, & IIoT

## The Leading Provider of Specialty Flow Control Solutions to the Industrial Sector

**Key Applications & Market Focus**

Chemical



OEM & Manufacturing



Life Sciences



Food & Beverage



Steel & Metals



Water Infrastructure



# Flow Control Position & Value Proposition

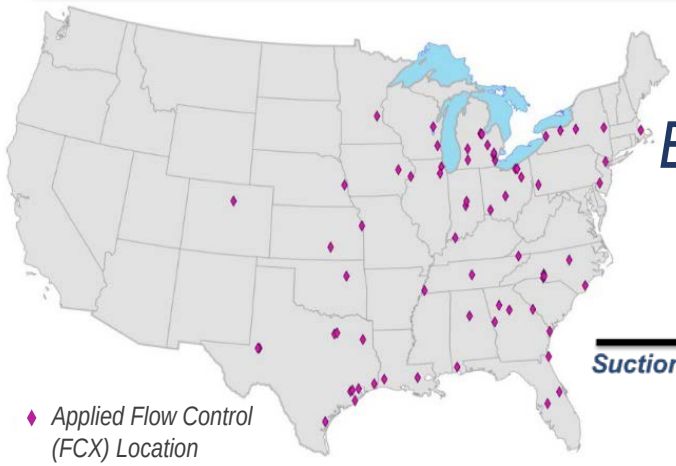
We Offer the Largest, Most Comprehensive Flow Control Product & Service Portfolio Focused on Mission-Critical & Full-Cycle Solutions

## Strategic Rationale & Growth Strategy

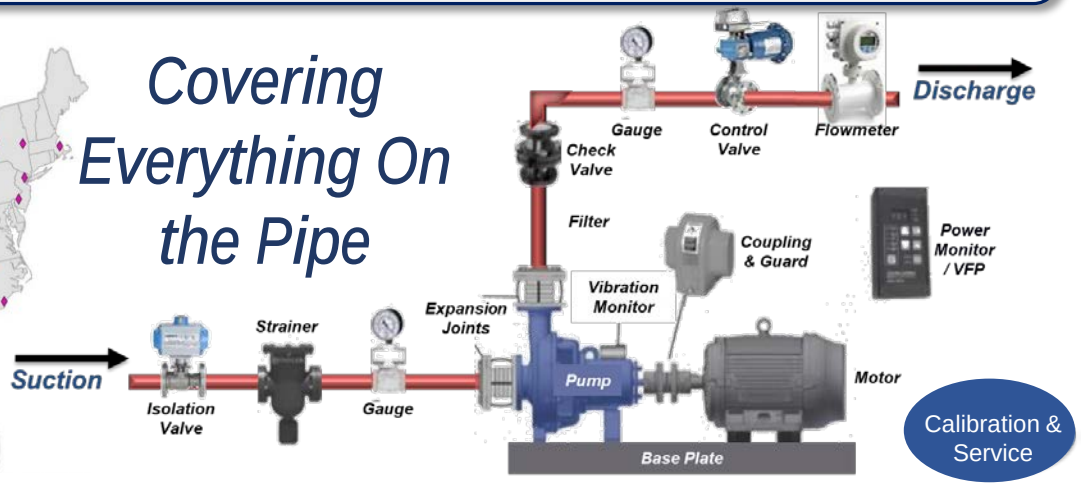
- Enhances leading technical MRO position
- Higher margins from high-touch service capabilities
- Significant cross-selling opportunity
- "Acquirer of Choice" status with geographic expansion potential in western U.S.

## Drivers of Competitive Position

- Service and repair capabilities
- Valve actuation, consulting, instrumentation, fabrication, calibration, & commissioning services
- Engineered systems integration expertise
- Comprehensive product offering
- Highly technical sales team
- Long-term exclusive supplier relationships




*Covering Everything On the Pipe*
















# Emerging Focus on Next Generation Automation & Industry 4.0

**Market Opportunity**

Technology converging with traditional industrial supply chains as customers address skilled labor constraints & plant efficiency, while considerations around manufacturing re-shoring & U.S. industrial infrastructure have potential to gain momentum

**Value Proposition**

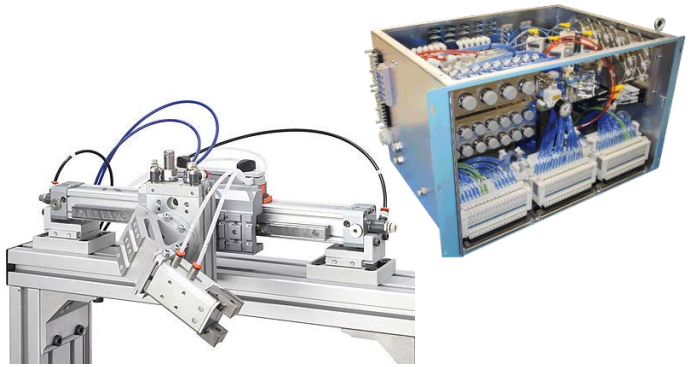
Legacy technical product focus, service capabilities, embedded customer relationships within traditional industrial end markets, knowledge across direct production infrastructure and equipment, & existing supplier relationships

**Recent Actions**

Three acquisitions the past 17 months expanding automation offering focused on the design, assembly, integration, & distribution of next generation machine vision, robotic, motion, and IIoT technologies; Established Applied IoT Connect™ program focused on emerging data, digitization, & connected industrial solutions

*Legacy in Motion Control & Embedded Industrial Customer Base* → *Leading Technical Position & Engineered Solutions Focus* → *Provides Platform Into Next Generation Automation & Industry 4.0*







*Leveraging Industry Position to Drive Growth Tied to Enhanced Technology & New Market Opportunities*

# Emerging Focus on Next Generation Automation & Industry 4.0

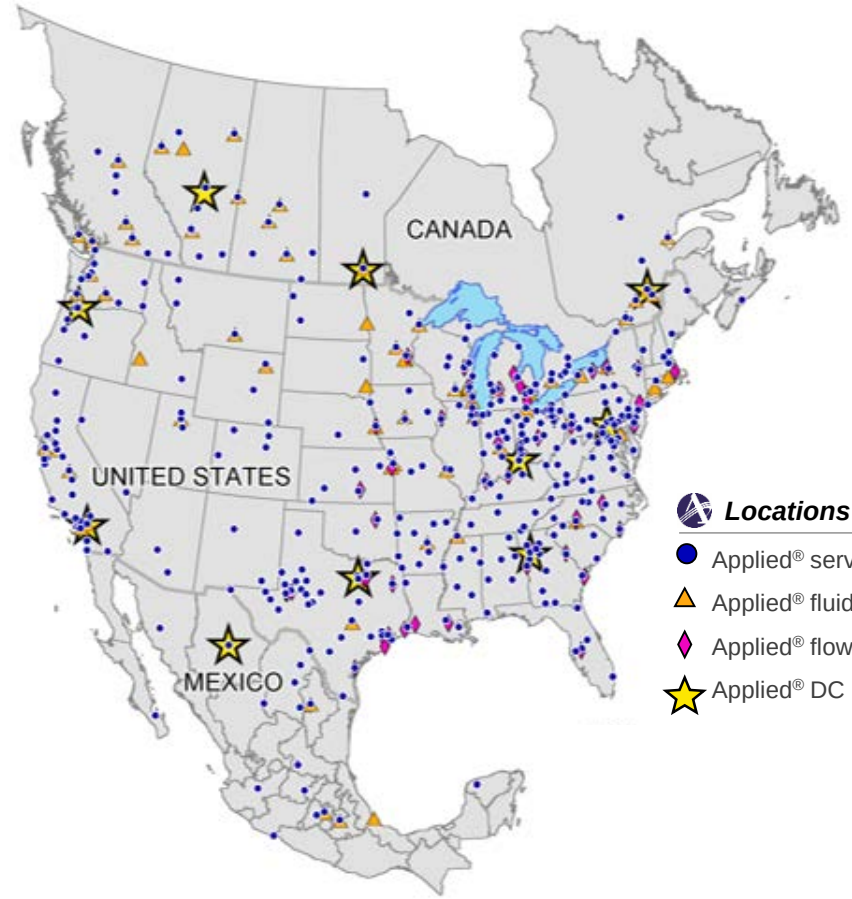
Products, Solutions, & Experience Across Legacy Operations

Vast Network with Entrenched Customer Relationships Across Underpenetrated Industrial End Markets

Expansion Into Next Generation Automation & Smart Technology Solutions




- Electronic Control Integration *(Fluid Power)*
- Pneumatic Automation *(Fluid Power)*
- Valve Actuation *(Flow Control)*
- Sensors & Retrofits *(Service Centers)*
- Motion Control Products *(Service Centers)*







- Robotic & Machine Automation
- Cobots & Mobile Robots
- Machine Vision & RFID
- Industrial Networking, Gateways
- Specialized Engineered Solutions
- System Design & Assembly

*Leveraging Industry Position to Drive Growth Tied to Enhanced Technology & New Market Opportunities*

# Maintenance Supplies & Solutions

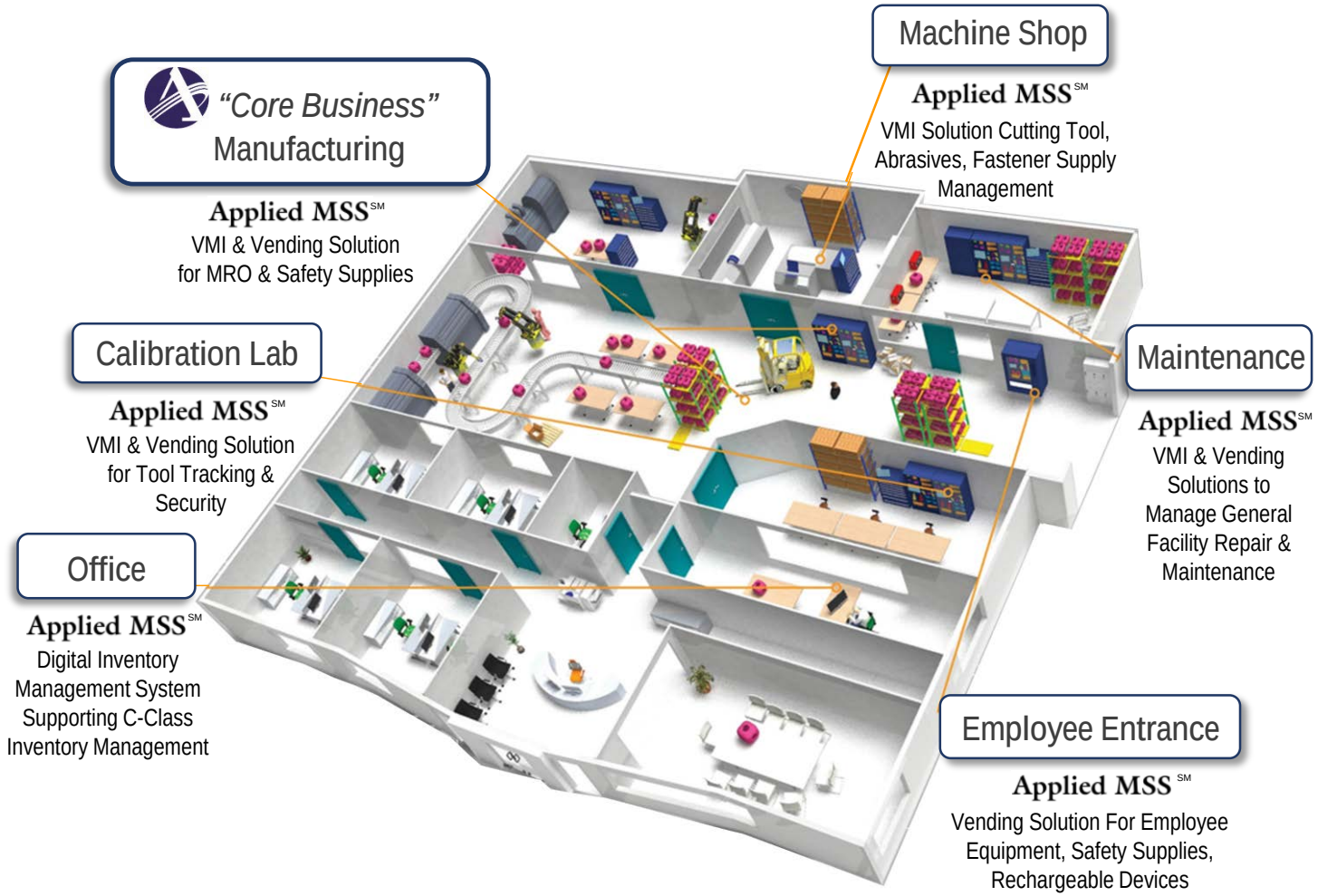
APPLIED Industrial Technologies®

APPLIED
Maintenance Supplies & Solutions®

**A Leading National Distribution Platform for C-Class MRO Supplies Through Vendor Managed Inventory (VMI) & Vending Solutions**

- 200+ Sales & Service Representatives
- 4 Distribution Centers
- 250,000+ SKUs Available
- *Significant Cross-Sell Opportunity Across Core Service Center Customer Network*



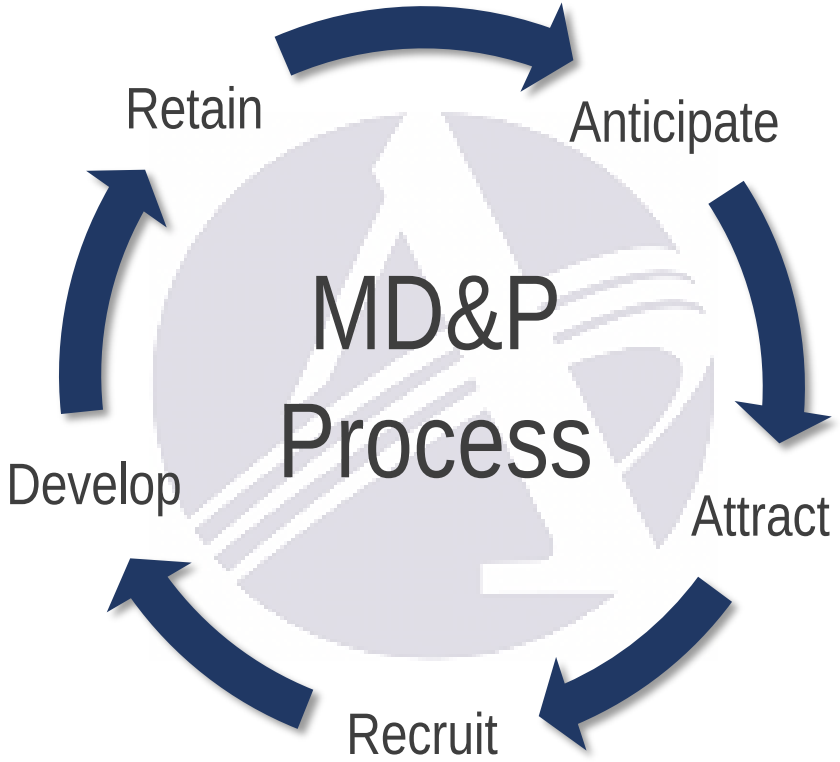




*Complementary Inventory Management Solutions for Customers' Indirect Supply Requirements*

# Talent Development

## Management Development & Planning

- Expanding Organizational Vitality
- Enhancing Performance & Realizing Potential
- Creating Succession & Organizational Plans
- Top Talent – Development & Retention




## *Strengthening Leadership & Organizational Capabilities*

- Integrated HR Information System Enhancing the Hire-to-Retire Process
  - Recruitment
  - Performance Management
  - Career Development
  - Succession
- Competency-Focused Career Website
- Robust Data Analytics for Selection & Development
- Direct Communication to 30,000+ Candidates Through Talent Network
- Competency-based Career Ladders & Focused Training Framework:
  - 70% On-the-Job Training
  - 20% Project-Based Training
  - 10% Formal Training



| Skill | Effect on Quota Percentage | Effect on Total Contract Value | Room for Skill Improvement | Relative Perceived Importance | Development Priority | Skills to Add to Your Radar |
|---|---|---|---|---|---|---|
| Quick Qualification | High | High | High | High | Very High | |
| Using Sales Processes | High | Moderate | High | Moderate | Very High | X |
| Focus on Value Creation | High | Moderate | High | High | Very High | |
| Identifying Performance Gaps | Moderate | Moderate | Very High | Moderate | Very High | X |
| Identifying Customer Needs | High | Moderate | Moderate | High | High | |
| Monitoring Performance | High | Low | High | Low | High | X |

# Environmental - Social - Governance (ESG)

## Our ESG Focus Takes Many Forms

- *97 years of conducting business ethically & responsibly*
- *Low-carbon footprint as a distributor*
- *Advise customers on energy savings & reducing their carbon footprint*
- *Implementing greener practices in our own operations*
- *Promoting diversity & continuous learning across our organization*
- *Supporting the well-being of our associates & our communities*



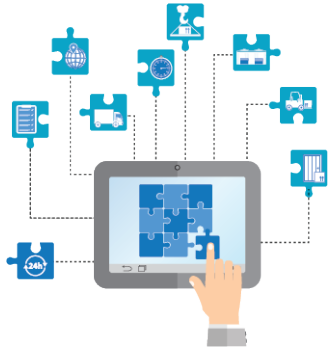

## Core Values

- Reflect our foundation, present & future
- Guide actions & reinforce required performance
- Represent collective business & individual responsibilities



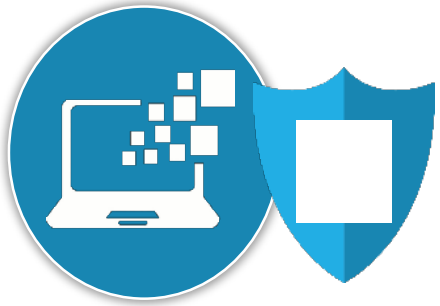

## Corporate Governance

- Diverse, seasoned executives
- Accepted principles & practices
- Integrity & transparency in financial reporting



## Supply Chain Management

- Quality brands; world-class manufacturers
- Supplier Diversity program
- Conflict Minerals reporting



## Information & Technology

- Established practices & policies
- Enterprise class systems
- Data protection; cybersecurity



## Environmental, Health & Safety

- Emphasis & awareness
- Expectations, roles & responsibilities
- Established EHS Policy



## Sustainability Initiatives

- Comply with government mandates
- Reduce environmental impact
- Provide eco-friendly products, knowledge & operations



## Corporate Citizenship & Human Rights Statement

- Equal employment opportunities; equitable pay
- Continuous learning & training
- Employee wellness assistance; community partner

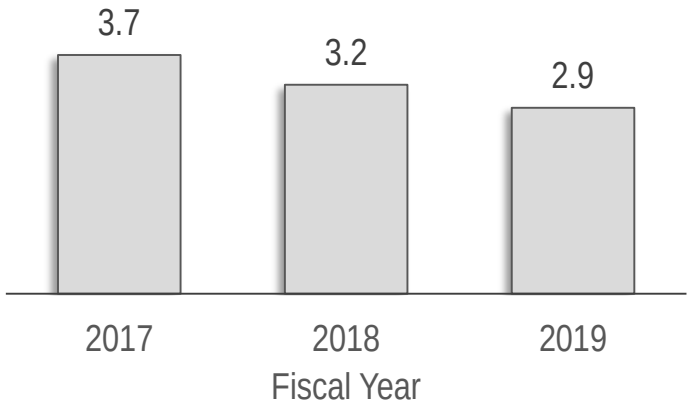
*Demonstrated Commitment to Conducting Business Fairly, Honestly, & Ethically*

# Safety & Sustainability Performance

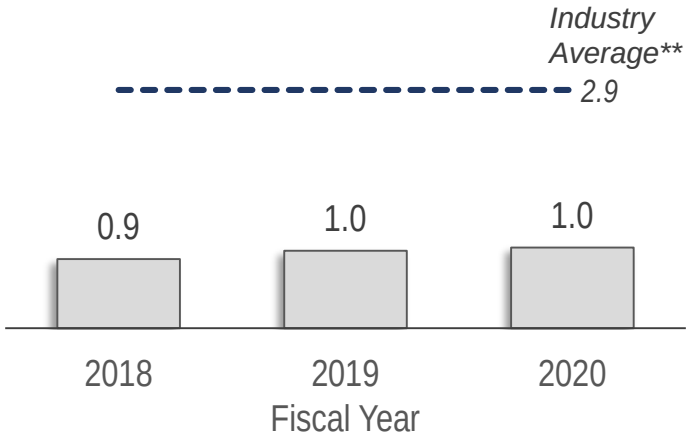
- Dedicated safety focus with comprehensive training programs across company
- Formalized EHS policy, analysis, monitoring, & accountability focus
- Low carbon footprint given distribution model
- Fuel-efficient dedicated sales fleet; primary freight provider top 2% in $CO_2$ emissions per mile*
- Undertaking LED retrofits across company
- Conduct customer energy audits on motors, belting, & gearing
- Promote Eco-Friendly Products - *Energy reduction, recycled content, bio-based, biodegradable, NEMA Premium®, Green Seal® certified, ENERGY STAR®*



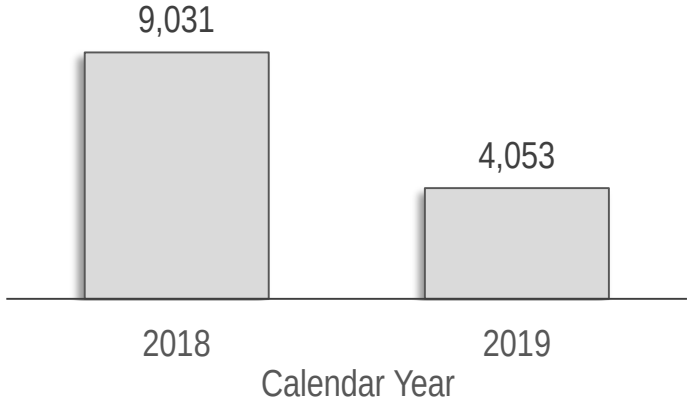

*Workers Comp Claims*
*Per $10M U.S. Payroll*




*Total Recordable Incident Rate (TRIR)*
*Within U.S.*




*Hazardous Waste Disposed*
*In pounds; U.S. Distribution Centers*




** Based on EPA SmartWay Transport Partners*
*** Industry Average for Total Recordable Incident Rate based on data from National Association of Wholesalers-Distributors; represents average of 2018-2019 calendar year period*

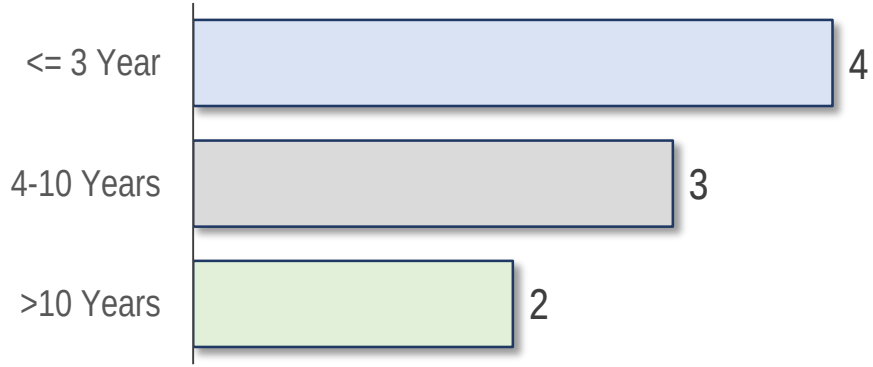
# Corporate Governance

## Key Governance Features

- Independent Chairman; all directors independent except CEO
- Key committees composed of only independent directors
- Strong “Pay for Performance” compensation practices
  - 80% of CEO compensation in fiscal 2019
- Equity award vesting rewards long-term, sustained performance
- Robust stock ownership guidelines for officers & directors
  - 5x salary for CEO, 3x for other executive officers

## Board Refreshment & Tenure

Average Tenure of Board Members ~7 Years




## Management Incentive Structure Summary

### Incentive Compensation Components

Annual Cash Incentives:

Based on Performance Relative to Targets of:

- Net Income
- Cash From Operating Activities

Long-Term Equity Based Incentives:

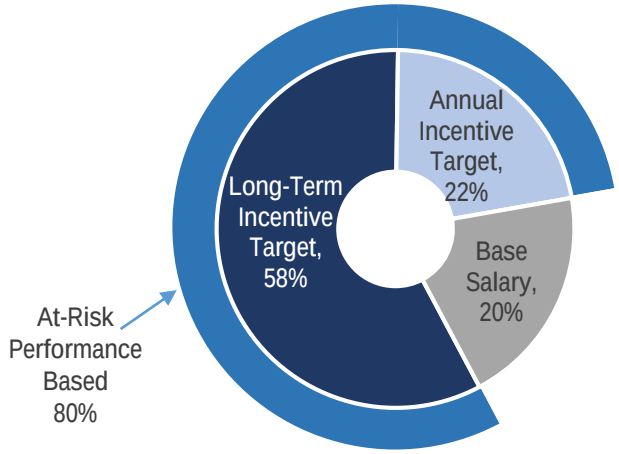
Based on Three-Year Performance Relative to Targets of:

- EBITDA
- Return on Assets

### Long-Term Equity Based Incentive Mix

- Performance Shares – 50%
  - *Achievement of three-year goals*
- Stock Appreciation Rights – 25%
  - *Four-year (25% graded) vesting period*
- Restricted Stock Units – 25%
  - *Three-year cliff vesting period*

### CEO Target Compensation Mix




*Corporate Governance Policies that Align the Interests of Management with Shareholders*

APPLIED
Industrial Technologies®

# Appendix

# Appendix: Reconciliations

## *EBITDA, Adjusted EBITDA, & Adjusted EBITDA Margin*

| | Twelve Months Ended June 30 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(dollar amount in thousands)* | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| Net Income | $112,821 | $115,484 | $29,577 | $133,910 | $141,625 | $ 143,993 | $24,042 |
| Interest expense, net | 249 | 7,869 | 8,763 | 8,541 | 23,485 | 40,188 | 36,535 |
| Income tax expense | 53,441 | 60,387 | 49,401 | 33,056 | 63,093 | 50,488 | 31,194 |
| Depreciation and amortization of property | 13,977 | 16,578 | 15,966 | 15,306 | 17,798 | 20,236 | 21,196 |
| Amortization of intangibles | 14,023 | 25,797 | 90,374 | 24,371 | 32,065 | 41,883 | 40,499 |
| **EBITDA** | $194,511 | $226,115 | $194,081 | $215,184 | $278,066 | $296,788 | $153,466 |
| Goodwill & intangible impairment | | | | | | $31,594 | $131,000 |
| Non-routine costs | | | | | $6,123 | $2,300 | $8,992 |
| **Adjusted EBITDA** | **$194,511** | **$226,115** | **$194,081** | **$215,184** | **$284,189** | **$330,682** | **$293,458** |
| Sales | $2,459,878 | $2,751,561 | $2,519,428 | $2,593,746 | $3,073,274 | $3,472,739 | $3,245,652 |
| **Adjusted EBITDA Margin** | **7.9%** | **8.2%** | **7.7%** | **8.3%** | **9.2%** | **9.5%** | **9.0%** |

## *Adjusted Gross Margin*

| | Twelve Months Ended June 30 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(dollar amount in thousands)* | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** |
| **Net Sales** | $2,459,878 | $2,751,561 | $2,519,428 | $2,593,746 | $3,073,274 | $3,472,739 | $3,245,652 |
| Gross Profit | $686,926 | $769,814 | $711,001 | $737,665 | $883,995 | $1,008,323 | $937,736 |
| Non-routine costs in cost of sales | | | | | | | $3,900 |
| **Adjusted Gross Profit** | **$686,926** | **$769,814** | **$711,001** | **$737,665** | **$883,995** | **$1,008,323** | **$941,636** |
| **Adjusted Gross Margin** | **27.9%** | **28.0%** | **28.2%** | **28.4%** | **28.8%** | **29.0%** | **29.0%** |

# Appendix: Reconciliations

## *Free Cash Flow*

| | Fiscal Year, Ended June 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(dollar amount in thousands)* | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | **FY18** | **FY19** | **FY20** |
| Cash provided by Operating Activities | $90,422 | $111,397 | $110,110 | $157,007 | $162,014 | $164,619 | $147,304 | $180,601 | $296,714 |
| Capital Expenditures | (26,021) | (12,214) | (20,190) | (14,933) | (13,130) | (17,045) | (23,230) | (18,970) | (20,115) |
| **Free Cash Flow** | $64,401 | $99,183 | $89,920 | $142,074 | $148,884 | $147,574 | $124,074 | $161,631 | $276,599 |

## *Net Leverage Ratio*

| | Fiscal Quarter | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(dollar amount in thousands)* | **Q4 FY18** | **Q1 FY19** | **Q2 FY19** | **Q3 FY19** | **Q4 FY19** | **Q1 FY20** | **Q2 FY20** | **Q3 FY20** | **Q4 FY20** | **Q1 FY21** | **Q2 FY21** | **Q3 FY21** |
| **Net Income** | $40,362 | $48,938 | $38,717 | $16,535 | $39,803 | $38,799 | $38,031 | ($82,777) | $29,989 | $34,784 | ($5,334) | $56,063 |
| Interest expense, net | 10,964 | 10,476 | 9,578 | 9,947 | 10,187 | 10,059 | 9,583 | 8,805 | 8,088 | 7,653 | 7,658 | 7,608 |
| Income tax expense | 19,859 | 7,164 | 11,724 | 9,283 | 22,317 | 12,308 | 11,346 | (2,550) | 10,090 | 10,048 | (4,834) | 12,453 |
| Depreciation and amortization of property | 5,077 | 4,981 | 5,038 | 5,026 | 5,191 | 5,223 | 5,394 | 5,380 | 5,199 | 5,352 | 5,209 | 5,080 |
| Amortization of intangibles | 10,739 | 10,921 | 10,991 | 9,911 | 10,060 | 10,374 | 10,195 | 10,048 | 9,882 | 9,726 | 8,276 | 8,236 |
| **EBITDA** | **$87,001** | **$82,480** | **$76,048** | **$50,702** | **$87,558** | **$76,763** | **$74,549** | **($61,094)** | **$63,248** | **$67,563** | **$10,975** | **$89,440** |
| Goodwill & intangible impairment | | | | 31,594 | | | | 131,000 | | | 49,528 | |
| Non-routine costs | | | | 2,300 | | 1,455 | | 5,997 | 1,540 | | 7,772 | (2,609) |
| **Adjusted EBITDA** | **$87,001** | **$82,480** | **$76,048** | **$84,596** | **$87,558** | **$78,218** | **$74,549** | **$75,903** | **$64,788** | **$67,563** | **$68,275** | **$86,831** |
| **Trailing 4-Quarter EBITDA** | $278,066 | $298,240 | $317,777 | $330,125 | $330,682 | $326,420 | $324,921 | $316,228 | $293,458 | $282,803 | $276,529 | $287,457 |
| Current portion of long-term debt | 19,183 | 19,184 | 44,184 | 44,163 | 49,036 | 93,912 | 73,771 | 78,642 | 78,646 | 78,651 | 78,638 | 78,644 |
| Long-term debt | 944,522 | 953,216 | 923,410 | 937,536 | 908,850 | 859,172 | 874,423 | 864,758 | 855,143 | 792,827 | 783,076 | 773,404 |
| Total Debt | $963,705 | $972,400 | $967,594 | $981,699 | $957,886 | $953,084 | $948,194 | $943,400 | $933,789 | $871,478 | $861,714 | $852,048 |
| Cash | 54,150 | 56,408 | 79,827 | 47,367 | 108,219 | 98,204 | 128,149 | 165,464 | 268,551 | 271,060 | 288,775 | 304,016 |
| **Net Debt** | **$909,555** | **$915,992** | **$887,767** | **$934,332** | **$849,667** | **$854,880** | **$820,045** | **$777,936** | **$665,238** | **$600,418** | **$572,939** | **$548,032** |
| **Net Leverage Ratio** | **3.3** | **3.1** | **2.8** | **2.8** | **2.6** | **2.6** | **2.5** | **2.5** | **2.3** | **2.1** | **2.1** | **1.9** |